IESO Privileged and Confidential Draft

Dear Deputy Minister Imbrogno,

As the drafting of the proposed legislation to implement the Fair Hydro Plan (the "Plan) has proceeded, the IESO has gained a better understanding of the role it would play in implementing the Plan, and the associated risks posed for the company have become better defined. ~~Bill to enact the proposed Ontario's Fair Hydro Plan Act, 2017 (the "Fair Hydro Plan") nears completion, the IESO has a better understanding of the role it will play in implementing the government's proposed Fair Hydro Plan and of the risks posed to the IESO.~~ The IESO's Board of Directors ~~greatly~~ appreciated ~~and took comfort in~~ ADM Steen Hume's recent presentation on the Plan,~~on April 12, 2017,~~ and in particular his assurance~~s~~ regarding the support and protections that the Province would provide ~~to the IESO~~given our expanded role. Accordingly I am writing to outline the key areas of risk we have identified for the IESO and the assurances we are seeking in that regard.

Adressing Increased Financial Exposure~~*This letter is to follow up on Mr. Hume's presentation and to request the Province's assistance in mitigating the risks to the IESO created by the Fair Hydro Plan.*~~

The greatest corporate risk is in the years when rates for specified consumers are to be reduced resulting in a~~n~~ deferred amount, being the difference between the reduced amounts collected from ratepayers and the IESO's market payment obligations.~~IESO funding shortfall.~~ The draft legislation does not require OPG or its financing entity to fund the deferred amount~~IESO funding shortfall~~, although we understand this is the intent~~, is that it will~~. ~~The IESO requests a formal commitment from the Province that the Province will fund the shortfall if OPG (or its financing entity) does not.~~

Separately, we have begun discussions with the Ontario Financing Authority (OFA) to increase the IESO's line of credit to reflect the increased magnitude of variances that will be incurred by the IESO under the ~~Fair Hydro~~ Plan and to provide a buffer to fund short periods where OPG does not fund a shortfall. In addition, we will be requesting ~~certain~~ enhancements to our OFA and OEFC lines of credit to provide~~obtain the~~ assurance that in a situation where OPG does not fund the IESO funding shortfall, the IESO will continue to be able to draw on these credit facilities for liquidity (and conversely will not prevent the IESO from doing so). We would appreciate the Ministry of Energy's support in our discussions with OFA to increase our OFA line of credit to a sufficient amount to cover an IESO funding shortfall for a reasonable period of time and with both OFA and OEFC to enhance the credit facilities. This is important not only for IESO solvency but also to maintain the IESO's credit rating, as our contracted suppliers' credit arrangements are often based on the IESO maintaining a certain rating.

Even with these~~Regardless of~~ changes to the credit facilities, a key issue of concern for the IESO remains the risk that the OPG financing entity does not continue to fund the deferred amounts~~IESO funding shortfall~~ and the OFA credit facility maximum is reached. The continued operation of the ~~Fair Hydro~~ Plan rate reductions without access to funding to cover these amounts~~shortfall~~ would quickly create a solvency situation for the IESO. Mr. Hume in his April presentation assured the IESO Board of Directors that the government recognized that the IESO would need some form of backstop to address this risk.

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Commented [CB1]: I'm assuming that the "it" in the draft is referring to OPG and not the legislation.

Commented [CB2]: Are we saying the same thing twice?

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Accordingly, the ~~Thus this request for a formal commitment from the Province to step in and fund IESO funding shortfalls in a situation where OPG has indicated it will no longer fund such shortfalls.~~

~~The~~ IESO requests a formal commitment from the Province that the Province will fund the shortfall if OPG (or its financing entity) does not.

Addressing Implementation and Administration Exposure~~*We ask for the Ministry of Energy's support in our discussions with OFA to increase our OFA line of credit to a sufficient amount to cover an IESO funding shortfall for a reasonable period of time and with both OFA and OEFC to enhance the credit facilities.*~~

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~~In addition, T~~The IESO is playing a central role in the ~~Fair Hydro~~ Plan including through the creation of a regulatory asset, the conveyance of that asset to OPG's financing entity and providing a servicing role in recovering OPG's funding costs from future ratepayers – all of which drive an ~~It remains uncertain what role the IESO will play in any securities offerings of OPG's financing entity but if such a role for IESO is required, it will come with heightened risk, especially if products are offered into the US market. In relation to the role IESO will play, there is~~ increased risk of liability to the IESO, its Board of Directors, Officers and employees. This ~~risk~~ is over and above ~~in addition to~~ the usual IESO operations risk and arises solely due to the ~~Province's Fair Hydro~~ Plan. In addition, it remains uncertain what role if any the IESO will play in any securities offerings of OPG's financing entity, but if such a role for IESO is required, it will come with heightened exposure~~risk~~, especially if products are offered into the US market.~~Therefore,~~ To address these circumstances, we are request that a Provincial indemnity be provided for the IESO, its Board of Directors, Officers and employees to address the increased liability exposure ~~for the risks~~ relating to the IESO's role in implementing the ~~Fair Hydro~~ Plan.

Finally, I wish to stress the importance that the IESO's Board of Directors places on obtaining appropriate and timely protection from the Province. I look forward to working with you to put these in place.~~discussing these matters with you further in the near future.~~